
AUDIT NEWSLETTER 2006

City of Tucson – Tax Audit Section (520) 791-4681 Fax (520) 791-4344

December 2006

Assistance is available in Spanish at 791-4681.

Topics listed below are new items or problem areas found during audits. Please check with the State of Arizona for compliance to State law.

PIMA COUNTY TAX RATE CHANGE

With the change in the Pima County tax rate from 0% to 0.5% on July 1, 2006, the combined rate went from 7.6% to 8.1% except for transient rentals, commercial rentals, and use tax. The Pima County tax is reported on the State of Arizona tax returns. Transient rentals state/county rate is 6.05% for a total combined rate of 12.05%. Commercial rental combined rate is now 2.5%. Check with the state about licensing your commercial rental. Use tax rate did not change. The effective rate for contracting has also changed. For contracting activity occurring in the City of Tucson, the effective rate is now 5.265% ($8.1\% \times 65\%$) for adding tax to a contracting job. For jobs done in unincorporated areas, the effective rate is now 3.965% ($6.1\% \times 65\%$).

TRANSIENT RENTAL (HOTEL/MOTEL) TAX CHANGES

The City of Tucson has adopted code changes that affect transient rental businesses and businesses who provide services through hotels. Effective January 1, 2007, these changes will make Tucson's code similar to the State of Arizona's code and other Arizona cities' tax codes. Tucson's interpretation of the code (where state and city codes are similar) will be following the Arizona Transaction Privilege Tax Ruling TPR 06-1 and the accompanying matrix.

The definition of transient is changing. Currently, Tucson considers all customers staying for 30 days or less to be transient, and therefore, the income received taxable. On a customer's 31st consecutive day, the rent income became exempt from tax. **This will change.** Income received from customers renting on a daily or weekly basis, or any other basis for **less than 30 consecutive calendar days**, will be taxable. A customer renting in weekly blocks will always remain a taxable customer even if they stay for 30 days or more. Rental income is exempt only if the customer informs the hotel, in writing, that they are staying for at least 30 consecutive days. If the customer leaves before the 30th

day, the income will become taxable unless the customer is committed to pay for the 30 day minimum.

For example, a customer checks in and informs the hotel they will be staying from March 5th through April 14th (41 days). The rental income is exempt from tax for the entire stay. If the customer checks out on March 30th, then the income becomes taxable.

If a customer originally rents the room on a daily or weekly basis and then informs the hotel that they will be staying for an additional time period of at least 30 days, the rent becomes exempt when the hotel is informed of the longer stay. For example, the customer checks in on March 5th and has reserved the room through March 11th. On March 11th, the customer extends their stay until April 14th (35 days). The rent received for March 5th through March 10th (6 days) is taxable. The rent received from March 11th through April 14th is exempt.

The matrix and the new interpretation of the code will change how some hotel related charges are classified for tax purposes. The general rule of thumb is that if the activity is only available to hotel guests, the income is subject to the transient rental tax. If the activity is also available to non-hotel guests, then the income may be subject to tax under a different activity, such as retail or rental, or it may be exempt as a service. Tucson currently considers charges for rollaway beds, refrigerators or room safes to be taxable under the rental activities for tangible and real property. The new interpretation will tax that income under the transient rental activity. Fees charged for spa usage only available to guests will be subject to transient rental tax. If the spa is open to the public, then the income is tax exempt.

For a complete list, please review the matrix attached to the TPR. The TPR can be found at :

www.azdor.gov/ResearchStats/rulings/salerule.htm.

Once there, click on TPR06-1. The link to the matrix is imbedded in the TPR. Scroll down to page 14 and look for the phrase "the Matrix" in a blue font color. Click on the phrase and the matrix will open. To review the City ordinances and interpretation differences, go to: www.tucsonaz.gov/finance.

Another transient rental code change will subject delinquent taxes or taxes paid late, to the same rules and rates listed in Chapter 19, Section 540 of the Tucson tax code.

HELP GET STATE TAX DOLLARS TO REVITALIZE DOWNTOWN
TUCSON.

The Rio Nuevo District includes downtown and extends along east Broadway to Park Place Mall. Businesses are to report their state sales tax for locations in the Rio Nuevo District using the “PAD” region code line on their Arizona State tax return. The increment of the current state tax over the base year comes back to Rio Nuevo. Since July 2003 the city has received \$27,355,685 in Rio Nuevo Dollars! Thank you to all of you in the district filing “PAD”! Taxpayers can call the Tax Audit Section (520-791-4681) to find out if your business is located in the Rio Nuevo District.

INTEREST RATE CHANGE

On October 1, 2005, the method used by the City of Tucson to compute interest on delinquent taxes, audits, and tax refund requests changed. Additionally, Tucson began using the same rate as the Arizona Department of Revenue. The interest rate is set every quarter and goes into effect the first of each quarter. To check the interest rate, please go to the ADOR Web Site at:

www.azdor.gov/ResearchStats/rates/tptinterestrates.htm

DO YOU HAVE TAX QUESTIONS?

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. Because the tax collector is not bound by oral advice, you may want to receive a written response to your question. To get a written response to your questions regarding unusual transactions, please send your **detailed** explanation of the transaction to:

Revenue Administrator
City of Tucson
PO Box 27210
Tucson, AZ 85726-7210

ALL BUSINESSES

UNLICENSED CONTRACTORS

The City of Tucson began a project in 2005 involving researching unlicensed contractors through the issued building permits. This special project will bring all construction contractors into compliance with the City Tax Code. Since January 2005, the city has licensed over 280 contractors. The 105 businesses licensed this fiscal year have paid \$631,632 in taxes. If you feel that you may need a license for contracting activity please contact the License Section at (520) 791-4566.

UNLICENSED RENTAL PROPERTIES

The Tucson tax rate on income from non-residential real property rental is two percent (2%). For the current fiscal year, the Audit Section has licensed 57 businesses which have paid \$432,425 in taxes.

FREE TAX SEMINARS

Please call us at 791-4681 to register. We will ask for your name and number of attendees (needed for seating and material planning). There will be 12 seminars held. Four will cover general information, four will cover the Construction Contracting activity, and four will cover Retail and similar activities. Questions are welcome. It is recommended that you bring a calculator to the Contracting and Retail classes as tax return examples are done.

The first six have been scheduled and are listed below. As the other seminars are scheduled, they will be listed on the Finance Department's web page.

The general seminars emphasize licensing and reporting requirements. ADOR will also be speaking.

The Construction Contracting seminars will discuss prime contracting, subcontracting, and speculative building. ADOR will not be speaking.

The Retail seminars will cover the retail activity and similar activities such as restaurants and equipment rentals. ADOR will not be speaking.

<u>Date</u>	<u>Location</u>	<u>Time</u>
General Seminars		
01/17/07	Public Works	8:30 AM – 11:30 AM
04/11/07	Main	9:00 AM – 12:00 PM
07/11/07	Az Small Bus	9:00 AM – 12:00 PM
Construction Contracting		
02/14/07	Az Small Bus.	9:00 AM – 12:00 PM
05/16/07	Columbus	1:30 PM – 4:30 PM
Retail and Similar Activities		
03/14/07	Columbus	1:30 PM – 4:30 PM
06/13/07	Woods	1:30 PM – 4:30 PM

The addresses for the meeting locations are:

AZ Small Business Association	4811 E Grant Rd #261
Columbus Library	4350 E 22 nd St
Main Library	101 N Stone Ave
Public Works Building	201 N Stone Ave
Wilmot Library	530 N Wilmot Rd
Woods Library	3455 N 1 st Ave